

Message Text

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INFO OCT-01 EUR-12 ISO-00 TRSE-00 SS-15 PA-02 SP-02

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FM AMCONSUL VANCOUVER

TO SECSTATE WASHDC NIACT IMMEDIATE 4175

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DEPARTMENT PASS TREASURY OPCENTER IMMEDIATELY UPON RECEIPT. ARA
FOR PANAMA DESK OPENING BUSINESS APRIL 18.

E.O. 11652: N/A

TAGS: EFIN

SUBJECT: IDB MEETING: TREASURY DEPUTY SECRETARY CARSWELL S SPEECH

FOLLOWING IS PROPOSED TEXT BY DEPUTY SECRETARY CARSWELL FOR APRIL 18
DELIVERY AT IDB MEETING, 11:00 A.M. VANCOUVER TIME.

THIS AFTERNOON THE UNITED STATES SENATE WILL VOTE ON THE SECOND
PANAMA CANAL TREATY. THAT VOTE WILL BE THE CULMINATION OF EFFORTS
THAT BEGAN OVER FOURTEEN YEARS AGO TO RESOLVE THE DIVISIVE ISSUES
ABOUT CONTROL OF THE CANAL THAT HAVE LONG COMPLICATED RELATIONS
IN THIS HEMISPHERE. OUR HOPE AND EXPECTATION IS THAT THESE TREATIES
WILL FINALLY SETTLE THESE ISSUES IN THE HEMISPHERE AND ESTABLISH A
MORE JUST AND EQUITABLE RELATIONSHIP BETWEEN THE UNITED STATES AND
PANAMA.

PRESIDENT CARTER HAS PERSONALLY LED THE EFFORT TO CONCLUDE A SUCCESS
FULL NEGOTIATION, TO WIN ITS ACCEPTANCE BY OUR CITIZENS AND TO GAIN
SENATE RETIFICAT THE SENATE ITSELF HAS SET ASIDE MANY OTHER
IMPORTANT MATTERS AND HAS DEVOTED MORE THAN TWO MONTHS TO A CAREFUL
CONSIDERATION OF THE TREATIES MERITS AND OF THEIR HISTORIC IMPLICA
TIONS. I WOULD SUGGEST THAT THIS RECORD CLEARLY ESTABLISHES THE
IMPORTANT PRIORITY THAT THIS ADMINISTRATION ASSIGNS TO ITS RELATIONS
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IN THE HEMISPHER.

THE TREATIES ARE ALSO VISIBLE EVIDENCE OF THE SUBSTANCE OF U.S.
POLECY TOWARD LATIN AMERICA AND ILLUSTRATE THREE MAJOR PRINCIPLES
THAT GUIDE US:

-- FIRST, RESPECT BY EVERY NATION FOR THE POLITICAL INTEGRITY AND
ECONOMIC AND SOCIAL ASPIRATIONS OF EVERY OTHER NATION.

--SECOND, RECOGNITION OF THE ESSENTIAL INTERDEPENDENCE OF DEVELOPED

AND DEVELOPING ECONOMIES.

-- THIRD, IMPRESSIVE PROGRESS IN MANY OF THE WORLD'S DEVELOPING COUNTRIES -- ESPECIALLY IN LATIN AMERICA -- WHICH ENABLES THEM, BY ABILITY AS WELL AS RIGHT, TO PLAY AN INCREASINGLY IMPORTANT ROLE ON THE INTERNATIONAL ECONOMIC SCENE.

THIS VANCOUVER MEETING IS ITSELF A REFLECTION OF THE INEXORABLE CURRENTS AT WORK. THE INTER-AMERICAN DEVELOPMENT BANK NOW EMBRACES NOT ONLY THIS MOST HOSPITABLE OF HOST COUNTRIES, CANADA, BUT MANY OTHER DEVELOPED COUNTRIES AROUND THE WORLD. WHAT WAS ORIGINALLY A REGIONAL INSTITUTION HAS ACQUIRED A GLOBAL BASE, AND BECOME PART OF A WORLD-WIDE SYSTEM OF HIGHLY IMPORTANT FINANCIAL AND DEVELOPMENT INSTITUTIONS.

UNITED STATES SUPPORT OF THE BANK, LIKE OUR OTHER RESPONSES TO LATIN

AMERICAN ASPIRATIONS, IS AN ELEMENT IN OUR GLOBAL APPROACH TO THE PROBLEMS OF THE INTERNATIONAL ECONOMIC ORDER -- GLOBAL GROWTH AND PROSPERITY, MAKING OPTIMUM USE OF MATERIAL AND HUMAN RESOURCES IN A LIVABLE ENVIRONMENT, ENSURING THE ESSENTIAL JUSTICE OF INTERNATIONAL SYSTEM AS A WHOLE.

U.S. POLICIES FOR DEVELOPMENT

LAST YEAR, SECRETARY BLUMENTHAL OUTLINED FOR YOU THE COMPREHENSIVE NATURE OF U.S. POLICIES AND ACTIONS BENEFITTING THE DEVELOPING WORLD. HE DEEPLY REGRETS THAT HE IS UNABLE TO BE HERE TODAY., TO RENEW THE MANY WARM CONTACTS WITH OTHER GOVERNORS HE MADE IN GUATEMALA. HE RECENTLY WAS THE HOST AT A LUNCHEON IN WASHINGTON WITH PRESIDENT UNCLASSIFIED

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ORTIZ MENA AND REPRESENTATIVES OF MANY OF YOUR COUNTRIES IN ORDER TO MAINTAIN HIS PERSONAL INVOLVEMENT IN U.S.-LATIN AMERICAN ECONOMIC RELATION. AND HE HAS ASKED ME TO EMPHASIZE THAT THE UNITED STATES REMAINS ABSOLUTELY COMMITTED BOTH TO THE IMPLEMENTATION OF POLICIES BENEFICIAL TO THE DEVELOPING WORLD, AND TO THE CONSTANT SEARCH FOR ADDITIONAL WAYS IN WHICH U.S. INTERESTS AND THE INTERESTS OF DEVELOPING NATIONS CAN BE HARMONIZED AND BETTER SERVED.

THIS SEARCH FOR A CONVERGENCE OF INTERESTS, A SHARING OF RESPONSIBILITY FOR SOLUTIONS TO COMMON PROBLEMS, A COMMITMENT TO PARTNERSHIP, WAS A CENTRAL THEME OF PRESIDENT CARTER'S RECENT JOURNEY TO LATIN AMERICA. DURING HIS VISIT TO VENEZUELA, ONE OF THE GREAT DEMOCRACIES OF THE HEMISPHERE, HE SAID:

OUR SPECIFIC OBLIGATIONS WILL BE DIFFERENT, OUR INTERESTS AND EMPHASES WILL VARY -- BUT ALL OF US, NORTH AND SOUTH EAST AND WEST, MUST BEAR OUR PART OF THE BURDEN. IF THE RESPONSIBILITY FOR GLOBAL PROGRESS IS NOT SHARED, OUR EFFORTS WILL CERTAINLY FAIL, ONLY IF THE RESPONSIBILITY IS SHARED, CAN WE ATTAIN THE GOALS THAT OUR PEOPLE WANT AND THAT OUR TIMES DEMAND.

WE BELIEVE THE IDB HAS LONG SYMBOLIZED THIS ASPIRATION.

THE BANK IS A UNIQUE COOPERATIVE EFFORT BETWEEN DONORS AND RECIPIENTS AND ITS POLICIES ARE SHAPED BY BOTH.

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FOR THE UNITED STATES, AN IMPORTANT PART OF THE JOINT
RESPONSIBILITY OF WHICH PRESIDENT CARTER SPOKE IS MAINTAINING THE
STRENGTH OF THE DOLLAR AND THE MONETARY SYSTEM. THE UNITED STATES
IS DEEPLY CONCERNED ABOUT THE VALUE OF THE DOLLAR AND

RECOGNIZES THAT CURRENCY STABILITY IS IN THE INTEREST OF THE
U.S. AND THE WORLD ECONOMY. A STABLE DOLLAR CAN ONLY BE ACHIEVED
BY DEALING WITH THE FUNDAMENTAL U.S. ECONOMIC SITUATION.
ON APRIL 11 THE PRESIDENT ANNOUNCED COMPREHENSIVE NEW
MEASURES TO COMBAT INFLATION. THESE INCLUDED A SERIES OF
MEASURES DESIGNED TO: (1) LIMIT THE SIZE OF THE 1979 AND
FUTURE FEDERAL BUDGET DEFICITS, (2) RESTRICT THE SALARY
INCREASE OF FEDERAL GOVERNMENT EMPLOYEES, FREEZE THE SALARIES
OF EXECUTIVE APPOINTEES FOR ANOTHER YEAR, AND URGE SIMILAR
WAGE RESTRAINT ON STATE AND LOCAL GOVERNMENTS AND PRIVATE
BUSINESSES, (3) SEEK VOLUNTARY PRICE RESTRAINT IN VARIOUS
ECONOMIC SECTORS, AND(4) REDUCE THE INFLATIONARY EFFECT OF
PAST AND FUTURE REGULATORY ACTIONS BY THE GOVERNMENT, WHILE
RESISTING PROPOSED LEGISLATION IN SEVERAL FIELDS WHICH WOULD
CONTRIBUTE TO INFLATION.
IN THE ENERGY FIELD THE PRESIDENT ONCE AGAIN URGED THE
U.S. CONGRESS TO ADOPT MEANINGFUL ENERGY LEGISLATION WITHOUT
FURTHER DELAY AND INDICATED THAT, IF CONGRESS DID NOT ACT,
OIL IMPORTS WOULD HAVE TO BE LIMITED BY ADMINISTRATIVE
ACTION UNDER PRESENT LAW.

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A THIRD AREA OF PRIORITY ACTION IS EXPORT EXPANSION. WE ARE ENCOURAGING AMERICAN FIRMS TO BECOME MORE EXPORTCONSCIOUS. THE ADMINISTRATION IS SUPPORTING A SHARP INCREASE IN THE LENDING ACTIVITIES OF THE EXPORT-IMPORT BANK. ALSO, IN HIS ADDRESS ON APRIL 11 THE PRESIDENT CALLED FOR A CABINET-LEVEL TASK FORCE TO DEVELOP ADDITIONAL MEASURES TO PROMOTE EXPORTS, AND TO REPORT BACK TO HIM WITHIN 60 DAYS. THE RECENT DISORDERS IN THE FOREIGN EXCHANGE MARKET HAVE REFLECTED DOUBTS ABOUT THE U.S. ABILITY TO REDUCE ITS TRADE DEFICIT. ONCE MARKETS SEE THAT WE ARE PROCEEDING IN THE RIGHT DIRECTION ON THE FUNDAMENTALS -- BY CURBING INFLATIONS,

REDUCING OIL IMPORTS, AND PROMOTING EXPORTS -- I WOULD EXPECT MARKETS TO CALM. THE U.S. WILL, HOWEVER, CONTINUE TO INTERVENE TO THE EXTENT NECESSARY TO COUNTER DISORDERLY CONDITIONS IN THE MARKET AND TO CURB DESTABILIZING SPECULATION. THE INTERNATIONAL MONETARY SYSTEM IS ALSO BEING STRENGTHENED BY MEASURES TO ENHANCE THE SOLE AND RESOURCES OF THE INTERNATIONAL MONETARY FUND. THE AMENDED IMF ARTICLES HAVE JUST ENTERED INTO FORCE. THEY PROVIDE A NEW LEGAL FRAMEWORK FOR INTERNATIONAL FINANCIAL RELATIONS, INCLUDING EXPANDED IMF AUTHORITY OVER EXCHANGE RATE PRACTICES. THE RESOURCES OF THE FUND HAVE BEEN INCREASED

BY ONE-THIRD, TO ABOUT DOLS48 BILLION, THROUGH IMPLEMENTATION OF NEW QUOTAS. THE SUPPLEMENTARY FINANCING FACILITY WILL PROVIDE AN ADDITIONAL DOLS10.5 BILLION IN RESOURCES FOR USE IN ASSISTING THOSE MEMBERS WITH SEVERE BALANCE OF PAYMENTS PROBLEMS, INCLUDING OF COURSE DEVELOPING COUNTRIES. LEGISLATION AUTHORIZING U.S. PARTICIPATION IS NOW BEFORE CONGRESS, AND FINAL ACTION SHOULD BE COMPLETED IN THE NEAR FUTURE. WORLD PAYMENTS ARE LARGELY A REFLECTION OF WORLD TRADE. IN THIS KEY AREA, THE ADMINISTRATION HAS DEMONSTRATED CONCRETELY UNCLASSIFIED

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ITS DEDICATION TO THE AVOIDANCE OF NEW BARRIERS TO IMPORTS FROM DEVELOPING COUNTRIES, AND TO FURTHER REDUCTION OF EXISTING BARRIERS THROUGH THE MULTILATERAL TRADE NEGOTIATIONS. WE REJECT PROTECTIONISM, WHERE PROBLEMS EXIST, OUR RELIANCE IS ON STRENGTHENED DOMESTIC ADJUSTMENT POLICIES OR ON NEGOTIATION OF TEMPORARY RELIEF MEASURES IN SPECIFIC CASES. WE DO INSIST ON FAIRNESS IN TRADING PRACTICES, IN SUCH PROBLEM AREAS AS EXPORT SUBSIDIES, WE MUST WORK TOGETHER TO AVOID ECONOMIC CONFLICT. IN THE MAIN, HOWEVER, THE U.S. OFFERS A SOLID AND GROWING MARKET FOR GOODS AT ALL STAGES OF PROCESSING FROM DEVELOPING COUNTRIES. MORE THAN 25 PERCENT OF OUR IMPORTS OF MANUFACTURES NOW COME FROM NON-OIL DEVELOPING COUNTRIES, COMPARED TO JUST 15 PERCENT IN 1972. THE GENERALIZED SYSTEM OF PREFERNCES ALLOWED DOLS 3.9 BILLION WORTH OF GOODS TO ENTER

THE U.S. DUTY FREE IN 1977 , INCLUDING DOLS 1.1 BILLION FROM
LATIN AMERICA. KEEPING OUR MARKETS OPEN HAS NOT BEEN AN EASY
TASK FOR THE ADMINISTRATION IN FACE OF THE HIGH UNEMPLOYMENT
SITUATION AND
A SIZABLE TRADE DEFICIT. BUT THE REASONS FOR
MAINTAINING A LIBERAL TRADING STANCE ARE SOUND: MINIMIZING
INFLATION, CREATING TRADE-RELATED JOBS, AVOIDING INTERNATIONAL
CONFLICT. THESE CONSIDERATIONS WILL CONTINUE TO GUIDE OUR
POLICY.

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TRADE IN COMMODITIES HAS BEEN A SPECIAL AREA OF
CONCERN TO DEVELOPING COUNTRIES, INCLUDING MANY IN LATIN
AMERICA. THE UNITED STATES HAS RESPONDED ACTIVELY AND
CONSTRUCTIVELY IN THIS AREA. WE UNDERSTAND THE CONCERN OF
DEVELOPING COUNTRIES OVER EXCESSIVE PRICE FLUCTUATIONS AND
RESULTANT DISRUPTIONS IN FOREIGN EXCHANGE EARNINGS,
DOMESTIC INVESTMENT AND EMPLOYMENT. WE AGREE THAT IT
IS DESIRABLE TO SEEK INTERNATIONAL MEASURES TO STABILIZE
PRICES AROUND MARKET TRENDS, AND BELIEVE THAT IS IN
OUR OWN NATIONAL ECONOMIC INTEREST AS WELL AS THAT OF THE
WORLD COMMUNITY TO DO SO WHEREVER FEASIBLE. THUS WE ARE
PARTICIPATING IN INTERNATIONAL STABILIZATION AGREEMENTS COVERING
COFFEE, TIN, AND SUGAR AND ARE TAKING PART IN DISCUSSIONS OF
POSSIBLE ARRANGEMENTS FOR RUBBER, WHEAT AND COPPER.
THE FOREIGN INVESTMENT POLICY OF THE UNITED STATES
HAS LIKEWISE BEEN ATTUNED TO THE NEEDS AND INTERESTS OF
THE DEVELOPING WORLD. BASIS DECISIONS REMAIN WITH PRIVATE
INVESTORS, BUT WE ARE FACILITATING SUCH FLOWS WHENEVER
POSSIBLE. THE LIFE OF THE OVERSEAS PRIVATE INVESTMENT
CORPORATION HAS BEEN EXTENDED, AND A SPECIAL FOCUS HAS BEEN
GIVEN TO THE POORER COUNTRIES IN ITS OPERATIONS. IMPORTANT

ELEMENTS OF NEW TECHNOLOGY, BOTH IN TERMS OF EQUIPMENT AND OF METHODS AND CONCEPTS ARE LINKED WITH U.S. INVESTMENTS OVERSEAS. OUR ENCOURAGEMENT OF SUCH INVESTMENT THUS AMPLY MEETS THE TEST OF MUTUALITY OF BENEFITS.
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THROUGH THIS FAR-REACHING ARRAY OF POLICIES, THE UNITED STATES IS MAKING A MAJOR CONTRIBUTION TO ECONOMIC PROGRESS AND THE ALLEVIATION OF HUMAN WANT IN DEVELOPING COUNTRIES AROUND THE WORLD. WE DO SO FOR REASONS BOTH PRACTICAL AND IDEALISTIC, WE TAKE GREAT SATISFACTION IN OBSERVING THE IMPRESSIVE PROGRESS OF THOSE MORE ADVANCED OF THE LESS DEVELOPED COUNTRIES, WHOSE BILLION OR SO INHABITANTS ARE BEGINNING TO ENJOY MORE ACCEPTABLE CONDITIONS OF DAILY LIFE AND WHO ARE ASSUMING A GROWING IMPORTANCE IN THE FUNCTIONING OF THE WORLD ECONOMY. THESE COUNTRIES ARE EMERGING AS FULL PARTICIPANTS IN THE WHOLE FABRIC OF INTERNATIONAL EXCHANGE -- AS WELL AS RESPONSIBLE PARTICIPANTS IN THE INTERNATIONAL POLITICAL FRAMEWORK NECESSARY FOR A PEACEFUL PLANET.

AT THE SAME TIME, OUR HUMANITARIAN INSTINCTS ARE DISTURBED AT THE CONTINUING PLIGHT OF LARGE NUMBERS OF PEOPLE IN THESE COUNTRIES, AS WELL AS THOSE IN THE LEAST DEVELOPED COUNTRIES, WHO HAVE VASTLY DIFFERENT ENDOWMENTS, ATTAINMENTS AND PROSPECTS. THE MOST ELEMENTAL REQUIREMENTS FOR SUSTAINING HUMAN LIFE ITSELF ARE OFTEN UNMET IN THESE COUNTRIES. HEROIC STRUGGLES WILL BE NECESSARY TO BREAK THE GRIP OF STAGNATION AND PREVENT POVERTY FROM FEEDING ON POVERTY. THESE ARE THE SITUATIONS WHERE EXTERNAL HELP ON CONCESSIONAL TERM MUST BE CONCENTRATED, AND WHERE OUR GREATEST EFFORTS MUST BE DIRECTED.

TO HELP IN THIS ENDEAVOR THE UNITED STATES INCREASED ITS FOREIGN ASSISTANCE BY 31 PERCENT IN 1977 -- 20 PERCENT FOR BILATERAL AID, AND A MASSIVE 69 PERCENT FOR MULTILATERAL AID INCLUDING FOR THE IDB. SINCE 1975, THE SHARE OF U.S. GROSS NATIONAL PRODUCT DEVOTED TO FOREIGN ASSISTANCE IS BEGINNING TO CLIMB UPWARD AFTER A DECADE OF DECLINE. PRESIDENT CARTER
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HAS PROPOSED A FURTHER 24 PERCENT RISE IN 1978, INCLUDING ANOTHER 70 PERCENT INCREASE IN OUR CONTRIBUTIONS TO THE DEVELOPMENT BANKS.

THE GROWING DYNAMISM OF LATIN AMERICA

BY ANY STANDARD, IT IS LATIN AMERICA THAT HAS BEEN DEMONSTRATING THE GREATEST DYNAMISM AMONG THE LESS DEVELOPED COUNTRIES. LAST YEAR, REGIONAL GDP EXPANDED BY MORE THAN 5 PERCENT AFTER GROWING BY 4.8 PERCENT IN 1976. BACK IN 1975, WHEN THE INDUSTRIALIZED WORLD HAD PLUNGED INTO DEEP RECESSION, LATIN AMERICAN ECONOMIES CONTINUED TO GROW AT AN IMPRESSIVE RATE OF ALMOST 3 PERCENT.

LATIN AMERICAN GROWTH WOULD HAVE BEEN EVEN HIGHER IN 1977 IF SEVERAL MAJOR COUNTRIES INCLUDING BRAZIL, MEXICO, AND ARGENTINA HAD NOT BEEN IMPLEMENTING NECESSARY STABILIZATION PROGRAM UNDER WHICH ALL MADE SIGNIFICANT PROGRESS. LONGER TERM TRENDS HAVE ALSO BEEN FAVORABLE. THE AVERAGE RATE OF EXPANSION SINCE 1965 HAS BEEN SLIGHTLY OVER 6 PERCENT -- CONSIDERABLY BETTER THAN THE WORLD AS A WHOLE, WHICH GREW AT ABOUT 4 PERCENT IF OIL PRODUCING COUNTRIES ARE EXCLUDED. THE GDP OF THE REGION STOOD AT OVER DOLS 380 BILLION LAST YEAR, OR A PER CAPITAL LEVEL OF ABOUT DOLS 1200. THIS WAS FAR ABOVE

THE LEVEL OF AFRICA AND ASIA (EXCLUDING JAPAN). ON THE EXTERNAL SIDE, LATIN AMERICAN EXPORTS GREW AT A RAPID PACE IN 1977 -- RISING BY ABOUT DOLS9 BILLION TO MORE THAN DOLS 50 BILLION. THE CURRENT ACCOUNT IN THE REGIONAL BALANCE OF PAYMENTS IMPROVED BY ABOUT DOLS2.5 BILLION, AIDED BY A LARGE TRADE SURPLUS OF DOLS3.2 BILLION WITH THE UNITED STATES, AS COMPARED TO A SLIGHT DEFICIT THE YEAR BEFORE. BY THE END OF THE YEAR, COMBINED INTERNATIONAL RESERVES WERE DOLS22 BILLION -- MORE THAN QUADRUPLE THE LEVEL OF ONLY SIX YEARS EARLIER. IMPROVING EXTERNAL PERFORMANCE IN MOST COUNTRIES OF THE REGION, COUPLED UNCLASSIFIED

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WITH MARKED IMPROVEMENTS IN DEBT MANAGEMENT CAPABILITIES, MEANT THAT THE PROBLEM OF EXTERNAL DEBT WAS AT LEAST STABILIZED IN REAL TERMS, IF NOT ACTUALLY BECOMING EASIER.

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THESE FAVORABLE DEVELOPMENTS IN THE AGGREGATE STATISTICS DO NOT MEAN, OF COURSE, THE SOLUTION OF ALL LATIN AMERICA S PROBLEMS. THE REGION IS MUCH TOO DIVERSE FOR THAT TO BE THE CASE. MUCH POVERTY REMAINS -- AN ESTIMATED 42 PERCENT OF THE PEOPLE IN LATIN AMERICA LIVE IN POVERTY, IRREGULARLY DISTRIBUTED BETWEEN AND WITHIN COUNTRIES. MUCH STILL NEEDS TO BE DONE TO IMPROVE DOMESTIC RESOURCE MOBILIZATION AND INCOME DISTRIBUTION. WE BELIEVE THIS CAN BE DONE. LATIN AMERICAN NATIONS IN GENERAL HAVE REACHED A LEVEL OF MATURITY -- IN THEIR PLANNING CAPABILITIES, IN THE QUALITY OF THEIR PUBLIC ADMINISTRATION, IN THE SOPHISTICATION AND VITALITY OF THEIR PRIVATE SECTORS, AND IN THE PROVISION OF ESSENTIAL SERVICES TO THEIR CITIZENS -- THAT PLACES THE CONSOLIDATION OF DEVELOPMENT PROGRESS WITHIN THEIR GRASP. IN NO OTHER REGION OF THE DEVELOPING WORLD IS THIS PHENOMENON SO WIDESPREAD AS IN LATIN AMERICA.

THE FUTURE ROLE OF THE IDB

THIS ASSESSMENT OF LATIN AMERICAN S RELATIVELY ADVANCED POSITION ALONG THE SPECTRUM OF DEVELOPMENT HAS MAJOR IMPLICATIONS FOR THE FUTURE ACTIVITY OF THE INTER-AMERICAN DEVELOPMENT BANK. IN PARTICULAR, IT AFFECTS THE BALANCE BETWEEN HARD LOAN AF SOFT LOAN RESORCE REQUIREMENTS, COMPARED TO INSTITUTIONS SERVING OTHER AREAS OF THE DEVELOPING WORLD. IT IS, INEVITABLY, A CENTRAL ISSUE FOR DISCUSSION IN THE CONTEXT OF THE NEXT REPLENISHMENT OF THE UNCLASSIFIED

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BANK'S RESOURCES.

IN TERMS OF COUNTRY DISTRIBUTION, FURTHER PROGRESS WAS MADE IN 1977 IN DIRECTING RESOURCES ON THE BANK S MOST FAVORABLE TERMS TO THE SMALLER AND POORER COUNTRIES. IN THE BANK S HARD WINDOW, HOWEVER, FURTHER EFFORTS ARE NECESSARY TO ASSURE AN EQUITABLE DISTRIBUTION OF RESOURCES TO COUNTRIES AND TO PROJECTS REQUIRING DEVELOPMENT ASSISTANCE.

SOME OF THE OTHER LENDING DURING THE YEAR MAY FAIRLY BE QUESTIONED IN TERMS OF PRIORITIES. FOR EXAMPLE, THE EXPORT CREDIT PROGRAM IS UTILIZED PRINCIPALLY BY THE COUNTRIES BEST ABLE TO RELY ON TRADITIONAL PRIVATE SOURCES OF SUCH FINANCING. WE BELIEVE THAT THE BANK SHOULD DEVOTE ITS RESOURCES PRIMARILY TO THOSE SECTORS AND PROJECTS FOR WHICH PRIVATE SOURCES OF FINANCING

ON APPROPRIATE TERMS ARE NOT AVAILABLE. MORE RESOURCES WOULD THEREBY BE MADE AVAILABLE FOR PROJECTS OF DIRECT BENEFIT TO THE POORER SECTORS OF SOCIETY.

SEVERAL OTHER ASPECTS OF THE BANK'S 1977 ACTIVITIES

DESERVE COMMENT:

- COMPLEMENTARY FINANCING, DRAWING DIRECTLY ON PRIVATE MARKET SOURCES FOR PROJECT LOANS, TOOK ON SIGNIFICANT DIMENSIONS DURING THE YEAR AND OPENED THE WAY FOR FURTHER DEVELOPMENT IN THE FUTURE.
- THE EFFORT TO ENSURE THAT APPROPRIATE TECHNOLOGIES ARE EMPLOYED IN PROJECTS FINANCED BY THE BANK CONTINUED TO GATHER MOMENTUM DURING THE YEAR;
- THE BANK'S INTERNAL CAPACITY TO EVALUATE THE EFFECTIVENESS OF ITS LOANS WAS STRENGTHENED IN VARIOUS WAYS. IN ADDITION, THE GROUP OF CONTROLLERS, AS AN INDEPENDENT EVALUATION MECHANISM, INITIATED SEVERAL SUBSECTOR REVIEWS THAT WILL SHED FURTHER LIGHT ON THE PROJECT LEADING PROCESS. WE BELIEVE THAT AN INDEPENDENT EVALUATION MECHANISM IS ESSENTIAL TO MAINTAIN DESIREABLE STANDARDS OF PERFORMANCE.

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U.S. POLICY TOWARD THE IDB

I HAVE ALREADY NOTED THE SHARP INCREASE IN U.S. FINANCIAL CONTRIBUTIONS TO THE MULTILATERAL FINANCIAL INSTITUTIONS IN 1977. IN THE IDB, OUR CONTRIBUTION CLIMBED FROM DOLS270MILLION

IN 1976 TO A SUPPLEMENTAL APPROPRIATION OF DOLS316 MILLION IN EARLY 1977 AND A FULL-YEAR APPROPRIATION OF DOLS481 MILLION FOR FY 1978-- A THREE-FOLD INCREASE DURING THE FIRST YEAR OF THE CARTER ADMINISTRATION.

IN THE INTER-AMERICAN DEVELOPMENT BANK DURING THE YEAR, AS IN OTHER SIMILAR INSTITUTIONS, U.S. REPRESENTATIVES HAVE USED BOTH THEIR VOICE AND THEIR VOTE ON BEHALF OF THE CAUSE OF HUMAN RIGHTS. WE BELIEVE THAT THE GOALS AND PURPOSES OF THE BANK ENCOMPASS A BROAD RANGE OF FUNDAMENTAL CONCERNS. WE ALSO BELIEVE THAT SCARCE DEVELOPMENT FUNDS GENERALLY CAN BE BEST UTILIZED TO PROMOTE ECONOMIC AND SOCIAL OBJECTIVES BY GOVERNMENTS WHICH HAVE MANIFESTED A COMMITMENT TO PROTECTING AND PROMOTING THE RIGHTS OF THEIR PEOPLE.

AS SECRETARY BLUMENTHAL EMPHASIZED LAST YEAR, WE SEEK TO COOPERATE WITH ALL MEMBERS IN FINDING WAYS TO BEST ADVANCE OUR COMMON COMMITMENT TO HUMAN RIGHTS AND THE FULFILLMENT OF BASIC HUMAN NEEDS WHILE AT THE SAME TIME INSURING THE INTEGRITY AND EFFECTIVENESS OF ALL THE DEVELOPMENT BANKS. BUT NO NATION CAN CONTINUED TO HAVE A DOMESTIC CONSENSUS IN FAVOR OF PROVIDING ASSISTANCE TO OTHER COUNTRIES IF ITS OWN SENSE OF DECENCY IS OFFENDED BY THE ACTIVITIES OF THE GOVERNMENTS OF THE COUNTRIES

RECEIVING ASSISTANCE.

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ANOTHER AND QUITE DIFFERENT MATTER THAT AFFECTS THE
ABILITY OF THE U.S. GOVERNMENT TO MAINTAIN PUBLIC SUPPORT FOR
INTERNATIONAL DEVELOPMENT INSTITUTIONS IS THAT OF ADMINISTRATIVE
ARRANGEMENTS, ESPECIALLY THE SALARIES AND BENEFITS ENJOYED BY THE
STAFFS OF THESE INSTITUTIONS. THE BANKS ARE WIDELY VIEWED IN
THE UNITED STATES AS PUBLIC AGENCIES, AND ARE THEREFORE MEASURED
AGAINST STANDARDS APPROPRIATE FOR THE USE OF TAXPAYERS FUNDS.
WE BELIEVE THAT THE BANK SHOULD PURSUE POLICIES THAT GRADUALLY
BRING THE COMPENSATION OF ITS STAFF MORE IN LINE WITH THAT OF
REPRESENTATIVE PUBLIC AND PRIVATE SECTORS.
TO THE CREDIT OF THE INSTITUTION, CORRECTIVE ACTION HAS
BEEN TAKEN IN A NUMBER OF OTHER ADMINISTRATIVE AREAS -- SUCH AS
FIRST CLASS TRAVEL, SPOUSE TRAVEL AND ANNUAL MEETING ARRANGEMENTS.
BUT THE CENTRAL ISSUE OF STAFF COMPENSATION CONTINUES TO REQUIRE
ACTION URGENTLY. A SPECIAL COMMITTEE IS AT WORK ON THE ISSUE IN
THE WORLD BANK AND THE INTERNATIONAL MONETARY FUND; ITS CONCLUSIONS
WILL PROVIDE A USEFUL REFERENCE FOR ACTION WHICH WE HOPE ALL THE
INTERNATIONAL FINANCIAL INSTITUTIONS WILL PROMPTLY FOLLOW.
DISSATISFACTION ON MATTERS SUCH AS HUMAN RIGHTS AND
SALARIES, ALONG WITH THE SHEER INCREASE IN THE MAGNITUDE OF
MONEY INVOLVED, HAVE LED TO THE RELUCTANCE IN OUR CONGRESS TO
FUND FULLY OUR RECENT APPROPRIATIONS REQUESTS. IN ADDITION
TO THE DOLLARS 650 MILLION WHICH WE ARE SEEKING AS NEW APPROPRIATIONS
THIS YEAR, THERE REMAIN CARRYOVER APPROPRIATIONS REQUESTS FOR
DOLLARS 264 MILLION OF FUNDS WHOSE ORIGINAL DUE DATES HAVE PASSED.
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OF THE LATTER AMOUNT, DOLS125 MILLION IS FOR THE FUND FOR SPECIAL OPERATIONS.

WE ARE MAKING AN INTENSIVE EFFORT WITH THE CONGRESS TO OBTAIN THE FUNDS TO COVER ALL PLEDGES PAST DUE, AS WELL AS TO OBTAIN THE FULL AMOUNT OF CURRENT APPROPRIATIONS. THIS EFFORT ENGAGES THE HIGHEST LEVELS OF OUR ADMINISTRATION, AND THERE IS REASON TO HOPE THAT A LARGE MEASURE OF SUCCESS WILL BE REALIZED.

THE FUTURE OF THE IDB

FUTURE RESOURCES OF THE BANK MUST CONCERN US AT THIS MEETING AS MUCH AS RESOURCES PREVIOUSLY AGREED ON. WE HAVE ALREADY AGREED ON ARRANGEMENTS FOR DETAILED DISCUSSION OF THE NEXT REPLENISHMENT OF FUNDS. THESE DISCUSSION WILL CONCENTRATE ON THE REPLENISHMENT SIZE, ITS COMPOSITION BY WINDOW, THE PURPOSES TO WHICH THE FUNDS ARE APPLIED AND WHERE, THE CRITERIA FOR DETERMINING WHO WITHIN A BORROWING COUNTRY SHALL BENEFIT FROM THEM, AS WELL AS CERTAIN ADMINISTRATIVE ISSUES. NEEDLESS TO SAY, THE U.S. ADMINISTRATION WILL WORK IN CLOSEST CONTACT WITH OUR CONGRESS AS THE REPLENISHMENT DISCUSSIONS PROCEED; WE HAVE COMMITTED OURSELVES TO DO SO, AND NO REPLENISHMENT UNDERSTANDING WOULD BE OF PRACTICAL VALUE WITHOUT IT.

ALTHOUGH WE HAVE NO FIXED VIEWS YET AS TO THE SPECIFICS OF THE REPLENISHMENT, IT MAY BE USEFUL TO PUT FORWARD SOME ISSUES WHICH WE BELIEVE SHOULD BE CONSIDERED DURING THE COMING DISCUSSIONS.

FIRST, IN LIGHT OF LATIN AMERICA'S ADVANCED STAGE OF ECONOMIC DEVELOPMENT COMPARED TO OTHER AREAS OF THE WORLD, WE FORESEE A REPLENISHMENT IN WHICH FSO RESOURCES WILL DECLINE IN RELATIVE IMPORTANCE TO CAPITAL RESOURCES. LATIN AMERICAN HAS PROGRESSED TO A POINT WHERE THE NEED FOR RISING LEVELS OF CONCESSIONAL FINANCING MAY NO LONGER BE JUSTIFIED. THIS UNCLASSIFIED

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RELATIVE SCARCITY OF FSO FUNDS WILL FORCE ON US HARD CHOICES IN THE ALLOCATION PROCESS.

SECOND, WE MUST BE EVER MINDFUL OF THE NEEDS OF THE DISADVANTAGED PEOPLE IN THE AREA. WE ANTICIPATE THAT AN INCREASING PROPORTION OF THE BANK'S RESOURCES WILL BE DEVOTED TO BENEFITTING LOW INCOME BENEFICIARIES IN BOTH RURAL AND URBAN AREAS. THERE IS A STRONG NEED TO IMPROVE THE DEFINITIONS OF WHO WITHIN A SOCIETY IS POOR AND WHAT TYPES OF LOANS ARE CONSIDERED AS PRIMARILY SERVING THEIR NEEDS.

THIRD, WE BELIEVE IT WOULD BE APPROPRIATE TO MAKE AVAILABLE ALL REPLENISHMENT RESOURCES IN CONVERTIBLE CURRENCIES FREELY USABLE BY THE BANK. ALTHOUGH THE BANK HAS MADE USE OF FSO NATIONAL CURRENCY CONTRIBUTIONS, AND TO A LIMITED DEGREE OF SUBSCRIBED OC

NATIONAL CURRENCIES AS WELL, RESOURCES IN THIS FORM HAVE GIVEN RISE TO NUMEROUS ADMINISTRATIVE COMPLICATIONS. RATHER THAN ADD TO THESE, IT MIGHT BE PREFERABLE FOR THE CONTRIBUTIONS TO THE FSO REPLENISHMENT TO CONSIST EXCLUSIVELY OF CONVERTIBLE CURRENCY. TO ACHIEVE THIS CHANGE MIGHT REQUIRE A DIFFERENT METHOD OF DETERMINING CONTRIBUTIONS IN ORDER TO ENSURE EQUITABLE BURDEN SHARING.

CONCLUSION

THE KEY QUESTION IN THE COMING YEARS IS NOT WHAT KIND OF BANK WE WISH TO SEE. IT IS WHAT KIND OF LATIN AMERICAN SOCIETIES WE -- THE DONOR MEMBERS AND THE LATIN AMERICA MEMBERS TOGETHER -- WISH TO STRIVE TOWARD: WHAT KIND OF IMPROVEMENTS IN THE DAILY LOT OF THE BROAD MASS OF THEIR CITIZENRY; THAT KIND OF REALIZATION OF THE HOPES FOR GREATER FULFILLMENT OF INDIVIDUAL AND NATURAL POTENTIAL; WHAT KIND OF RELATIONS OF ONE LATIN AMERICAN COUNTRY WITH ANOTHER, AND OF NATIONAL AND REGIONAL RELATIONS WITH THE

REST OF THE WORLD.

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THE ORIGINAL ESTABLISHMENT OF THE BANK EIGHTEEN YEARS AGO WAS AN ACT OR VISION, EVEN IDEALISM, BY PRAGMATIC FINANCIAL LEADERS OF THAT TIME. OUR TASK NOW, AS FINANCIAL LEADERS CONCERNED WITH THE ARCHITECTURE OF THE INTERNATIONAL ECONOMY IN THE APPROACHING DECADE OF THE NINETEEN EIGHTIES, IS TO DEMONSTRATE AGAIN THAT MIX OF PRAGMATISM AND VISION, TO RECOGNIZE THE IMMENSE PROGRESS THAT HAS BEEN ACHIEVED IN THE HEMISPHERE, AND TO FOCUS MORE SHARPLY ON THE REMAINING PROBLEMS. THE ANSWERS FOR THIS BANK DO NOT LIE WITH EXTERNAL RESOURCES ALONE, BUT WITH THE AGILITY, FLEXIBILITY AND WISDOM OF THEIR APPLICATION. IT IS POSSIBLE TO BREAK THE MOLDS OF THE PAST IN ORDER

TO LAY THE GROUNDWORK FOR A BRIGHTER FUTURE. OUR WILLINGNESS TO
CONSIDER CONSTRUCTIVELY MANY OF THE INITIATIVES FROM THE NORTH-
SOUTH DIALOGUE TESTIFIES TO OUR COOPERATION IN THE ECONOMIC SPHERE.
IT IS IN THIS SPIRIT OF SUPPORT AND CREATIVITY THAT WE APPROACH
THE FUTURE OF THIS BANK.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TREASURY, TEXT, VOTING, TREATY RATIFICATION, MEETINGS, SPEECHES, CANALS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978VANCOU00487
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780165-0638
Format: TEL
From: VANCOUVER
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780442/aaaabjui.tel
Line Count: 662
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 089c8bab-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 13
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2925712
Secure: OPEN
Status: NATIVE
Subject: IDB MEETING: TREASURY DEPUTY SECRETARY CARSWELL S SPEECH FOLLOWING IS PROPOSED TEXT BY DEPUTY SECRETARY CARSWELL FOR APRIL 18 DELIVERY AT IDB MEETIN G, 11:00 A.M. VANCOUVER TIME
TAGS: EFIN, US, PN, IDB, (CASWELL)
To: STATE
Type: TE
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Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014